

## PART B: DETAILED QUESTIONS FOR RESPONSE

Please indicate your preference by providing comments as appropriate. Where there is insufficient space, please attach additional pages as necessary.

- (1) The first commitment period of the Kyoto Protocol will expire in 2012. The continuity of CERs as recognized carbon emission offsetting credits under the Kyoto Protocol is subject to a new international framework for the second commitment period under negotiation with a target completion in the United Nations Climate Change Conference in Copenhagen in December this year. Meanwhile, the US appears to be committed to develop a US emission trading scheme, but the details of the scheme are subject to further announcement and the relevance of CERs is uncertain. Against this background, do you think CERs should be the core carbon emission product to pursue in Hong Kong now or in a few years' time?

Yes, despite some uncertainties, CERs should be the core carbon emission product to pursue in Hong Kong, because the market share of CER has been the largest in the world, whose major supplier is China. Under the UNFCCC framework, after the conference in Copenhagen, trading of CERs, I believe, will continue, with some modifications in operation. The US will have their own products in emission trading, dominated by Chicago Climate Exchange and its subsidiaries.

- (2) At this stage, the global CER market is dominated by European participants connected to the EU ETS and the delivery of CERs is based on the EU standard. Mainland China is the major supplier of CERs, which focuses on clean development projects and CER origination. Under Mainland China's policy, CERs are usually engaged by foreign investors based on forward sale agreements before they are issued by the United Nations. As such, the secondary CER trading market is not developed. European participants are using CER markets in Europe to manage their carbon emission trading needs and risk exposure. Under the existing market conditions, in what way can Hong Kong add value to the business process of the CER market and attract carbon emission trading participants to the Hong Kong marketplace? What are the success factors for Hong Kong to develop a commercially viable CER trading platform that can attract trading activities and develop trading liquidity? Do you think Hong Kong possesses the success factors? Please explain your view.

Under the existing market conditions, Hong Kong can add value to the business process of the CER market because HKEx has far more experience and facilities in trading futures and derivatives than other places.

Hong Kong has a lot of successful factors which other places are lacking. First of all, Hong Kong is a SAR of China, a world financial centre and logistic centre, located at the delta of the Pearl River, inheriting a system of British legislation and capitalism. Hong Kong serves as a stepping stone to the Pan Pearl River Delta (9+2); English is an official language and foreigners can live here without a big cultural shock. International firms and chambers of commerce have their headquarters or offices in Hong Kong. It is a usual practice of the Chinese Government to give special support and preference to HKSAR in their important policies.

- (3) Do you consider Hong Kong investing communities have sufficient knowledge in carbon emission trading and are they ready to participate in trading CERs products? Please explain your view.

Carbon emission trading is new to the world. Like other places, Hong Kong investing communities do not have sufficient knowledge in this field. However, the investing communities and investors in Hong Kong will take active parts to learn if we have a market here. Education and training are essential. For details, please refer to my OPINION page. [REDACTED]

- (4) If you are a financial intermediary, please respond to the following questions:

(i) Do you see any potential in the asset class of carbon emissions and how would you rank the priority of carbon emission trading business among your other business initiatives? (high, medium or low)?

[REDACTED]

(ii) How would you assess your clients' interest in carbon emission trading? Do you have the know-how and expertise in handling carbon emission trading related operations and providing advisory services to your clients?

[REDACTED]

(iii) Are you located in Hong Kong and if so are you an Exchange Participant of Hong Kong Futures Exchange?

[REDACTED]

- (5) Are there any other issues regarding the introduction of CER futures not mentioned in this consultation paper that we ought to consider? Please explain your view.

In co-operation with the Environmental Protection Departments in Hong Kong and Guangdong, HKEx can initiate regulations and carbon credit trading for the Pearl River Delta Region and 9+2, and trading on SO<sub>2</sub> and COD, using the HKEx platform. For details, please refer to my OPINION page. [REDACTED]

- (6) Do you have any other comments in relation to the overall development of emissions or pollutants trading markets in Hong Kong?

A lot of legislation, preparation, translation and training are required to set up the Climate Futures Exchange in Hong Kong. It is time to start now, before the opportunity is given to Shenzhen or Guangdong and before the Climate Exchanges in China have fully established and become very strong competitors. [REDACTED]

- End -

**OPINION: (Michael W Leung August 2009)**

There are uncertainties delaying the establishment of the CER Futures Exchange in Hong Kong, most important of which is the policy in mainland China. The formation of the Beijing Environment Exchange (BEE), Shanghai Environment and Energy Exchange (SEEE) and Tianjian Climate Exchange (TCX) in 2008 indicates that the current policy of China will change, to keep in line with that in other parts of the world. Eventually, TCX will serve the Tianjian Binhai New Area, SEEE the Changjiang Delta Region, and the new Hong Kong Climate Exchange the Pearl River Delta Region.

- I. There are various goals for a climate exchange. Two goals which have not been clearly stated in the Consultation Paper are:
  - (a) Initiating regulations and carbon credit trading plans for the Pearl River Delta Region, similar to pollution regulations in the Taihu Lake Area and carbon credit trading plan in Pudong, Shanghai, using the SEEE platform, and trading on SO<sub>2</sub> and COD as proposed by BEE and TCX
  - (b) Educating the public and training the participants.
- II. Besides environmental chemistry, my fields of experience involve mainly education and translation. I wish to elaborate I (b) as follows:
  - (1) Promote long-term education through
    - (i) mass media including posters, newsletters, newspapers, magazines, radio, TV, internet etc
    - (ii) courses in tertiary institutions
    - (iii) teaching and learning materials in secondary education
  - (2) Organize short-term training by (face-to-face, online, in-house, off-campus)
    - (i) short courses
    - (ii) seminars and workshops
    - (iii) conferences.

Two additional measures may be considered, namely

- A. Development of Chinese/English courses and materials by local associations and institutions
- B. Adoption of courses and materials from overseas such as those provided by ECX, ACX, PointCarbon and other institutions.

However, in both measures, a lot of preparation and translation are needed. It will be too late to start planning when the Chinese Government gives green light to the CER Futures Exchange.